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Melville

CUSTOMERS

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Annual

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1993

RETAILING

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COMPANY PROFILE

Melville Corporation is in the business of satisfying customers through its nationwide network of specialty retail store formats in four business segments: prescription drugs, health and beauty aids; apparel; footwear; and toys and household furnishings. Appealing to a broad cross-section of value-conscious consumers, each retail format offers a distinct merchandise assortment and is committed to providing superior value and service to its customers. Our goal is pre-eminence in each area of specialty retailing in which we compete by increasing market share and return on investment in each of our merchandise categories, while remaining a low-cost provider.

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($ and shares in thousands, except per share data)			
Operating Results	1993 (a)	1992 (b)	% Change
Net Sales	$10,435,401	$10,432,843	–
Operating Profit	623,337	360,894	72.7
Earnings before Income Taxes, Minority Interests and Cumulative Effect of Change in Accounting Principle	599,527	335,496	78.7
Earnings before Cumulative Effect of Change in Accounting Principle	331,790	155,980	112.7
Net Earnings	331,790	133,429	148.7
Dividends on Common Stock	159,686	154,530	3.3
Dividends on Preferred and Preference Stock	25,248	25,794	(2.1)
Per Share Data			
Earnings Per Share of Common Stock before Cumulative Effect of Change in Accounting Principle	$ 3.00	$ 1.34	123.9
Net Earnings Per Share of Common Stock	3.00	1.13	165.5
Dividends Per Share of Common Stock	1.52	1.48	2.7
Financial Position at Year End			
Cash and Cash Equivalents	$ 80,971	$ 145,138	(44.2)
Inventories	1,858,772	1,806,550	2.9
Working Capital	1,070,293	1,060,753	0.9
Shareholders' Equity	2,246,846	2,076,601	8.2
Key Percentages			
Operating Profit as a Percent of Net Sales	6.0	3.5	
Earnings before Income Taxes, Minority Interests and Cumulative Effect of Change in Accounting Principle as a Percent of Net Sales	5.7	3.2	
Earnings before Cumulative Effect of Change in Accounting Principle as a Percent of Net Sales	3.2	1.5	
Net Earnings as a Percent of Net Sales	3.2	1.3	
Return on Beginning Shareholders' Equity	16.0	6.4	
Statistics			
Weighted Average Common Shares Outstanding	105,069	104,418	0.6
Number of Stores	7,282	8,213	(11.3)
Number of Associates	111,082	115,644	(3.9)
Number of Common Shareholders	7,600	8,000	(5.0)

(a) Excludes stores designated to be closed in connection with the 1992 strategic realignment program.

(b) Operating profit and earnings figures reflect the impact of the 1992 strategic realignment charge of $346,979 (see page 41).

($ in thousands)	Net Sales 1993	Net Sales 1992	% Change	Average Store Size Square Feet
Prescription Drugs, Health and Beauty Aids				
CVS	$ 3,948,197	$ 3,632,066	8.7	8,700
Apparel				
Marshalls	2,608,542	2,550,992	2.3	31,100
Wilsons	479,275	508,333	(5.7)	2,500
Bob's	207,400	155,219	33.6	44,100
Chess King (a)	55,164	202,190	(72.7)	–
Accessory Lady (b)	45,545	69,331	(34.3)	–
Footwear				
Meldisco	1,212,496	1,196,069	1.4	3,100
FootAction	262,262	217,713	20.5	2,600
Thom McAn (c)	237,578	426,117	(44.2)	3,300
Manufacturing (d)	757	123	515.4	–
Toys and Household Furnishings				
Kay-Bee (c)	919,054	1,060,276	(13.3)	4,000
Linens 'n Things	333,178	270,889	23.0	14,500 (f)
This End Up	110,437	100,750	9.6	900
Prints Plus (e)	15,516	42,775	(63.7)	–
Melville Corporation				
Total	$10,435,401	$10,432,843	–	

(a) Reflects the sale as of May 17, 1993.

(b) Reflects the sale as of October 16, 1993.

(c) 1993 excludes stores designated to be closed in connection with the 1992 strategic realignment program.

(d) Interdivisional sales of $17,532 in 1993 and $22,081 in 1992 have been eliminated.

(e) Reflects the sale as of May 29, 1993.

(f) Includes superstore format with average square footage of 26,000.

(g) 1992 reflects the effect of the strategic realignment charge (see page 41).

(h) Before corporate expenses.

Number of Stores		
1993	1992	% Change
1,284	1,221	5.2
448	419	6.9
631	583	8.2
16	11	45.5
–	487	–
–	113	–
2,771	2,623	5.6
391	298	31.2
337	731	(53.9)
–	–	–
1,026	1,244	(17.5)
143	144	(0.7)
235	236	(0.4)
–	103	–
7,282	8,213	(11.3)

Segment Summary			
	1993	1992	% Change
Prescription Drugs, Health and Beauty Aids			
Net Sales	$3,948,197	$3,632,066	8.7
Percent of Total	37.9	34.9	
Operating Profit (g)	195,670	149,182	31.2
Percent of Total	30.8	40.3	
Apparel			
Net Sales	3,395,926	3,486,065	(2.6)
Percent of Total	32.5	33.4	
Operating Profit (g)	181,922	125,893	44.5
Percent of Total	28.6	34.0	
Footwear			
Net Sales	1,713,093	1,840,022	(6.9)
Percent of Total	16.4	17.6	
Operating Profit (c)(g)	168,979	91,984	83.7
Percent of Total	26.6	24.9	
Toys and Household Furnishings			
Net Sales	1,378,185	1,474,690	(6.5)
Percent of Total	13.2	14.1	
Operating Profit (c)(g)	89,138	2,926	2,946.4
Percent of Total	14.0	0.8	
Total Operating Profit (g)(h)	$ 635,709	$ 369,985	71.8

Melville's performance for 1993 was below our expectations relative to both consolidated net earnings and consolidated net sales. Consolidated net earnings for 1993 were $3.00 per share versus $1.13 per share in 1992. Adjusting for two special charges previously announced, our consolidated net earnings would have been $3.50 per share in 1992. Consolidated net sales, though relatively flat at $10.435 billion in 1993, would have increased 4.8% on a comparable basis.

Clearly, these results did not meet our standards. Yet, in many ways, 1993 marked a turning point for our Company as we made significant progress toward our long-term goals. We established a tighter focus on our core businesses and divested underperforming divisions and stores. Investments continue to be made at an accelerating level in our growth businesses. We improved the overall level of execution throughout the Company by emphasizing the management of business processes and investing in new systems and technologies that enhance customer satisfaction while making our operations more efficient and our people more productive. We also refined and repositioned our retailing concepts to ensure that we listen to our customers and give them what they want and need.

In our core divisions, CVS reported strong net sales and met our earnings expectations in 1993, but Marshalls was hard hit by a sluggish retail environment for apparel which resulted in downward pressure on margins. Our apparel segment, in general, was particularly impacted by sluggish demand. To a much lesser degree, our footwear segment was also affected as footwear tends to correlate with apparel demand and fashion trends. The toys and household furnishings segment turned in mixed results with Linens 'n Things and This End Up having excellent net sales and net earnings growth, benefitting from strong activity in their product categories. Kay-Bee was impacted by softening in the video game segment of its business as well as the lack of a standout item or category during 1993.

1993 Retail Environment

Although the U.S. economy finally began to gather momentum in 1993, the apparel sector of the specialty retailing industry did not. Consumers focused on purchases of big-ticket items such as automobiles, electronics and home furnishings rather than clothing and accessories. The lack of a dominant fashion trend in 1993 also helped curb apparel purchases. Conversely, as home sales accelerated, our home related divisions, namely Linens 'n Things and This End Up, achieved excellent results.

We expect apparel purchases to recover in 1994 as the economy strengthens and consumers freshen and replenish their wardrobes. Historically, apparel sales bounce back after experiencing a fall-off of the magnitude that was experienced in 1993. We expect CVS to continue the positive trend it had during the second half of 1993. Leveraging of its dominant market position and excellent execution should enable it to continue to grow market share. Together, CVS and Marshalls comprise about 63% of Melville Corporation's consolidated net sales and over 60% of consolidated net earnings. We there-

fore expect 1994 to improve for Melville Corporation, especially as the results of our 1993 initiatives begin to impact the bottom line.

Strategic Realignment Program

A very significant development in 1993 was the implementation of our strategic realignment program including the divestiture of underperforming businesses and stores. During 1993 we sold three divisions: Chess King, Accessory Lady and Prints Plus. In announcing this program in December of 1992, our plans included the closing of approximately 390 Thom McAn stores and 240 Kay-Bee stores. As of January 31, 1994, we were able to close over 250 Thom McAn stores and 100 Kay-Bee stores. Further progress is anticipated in 1994 to meet this goal.

Acquisitions

At several divisions, we acquired new stores when it made strategic and financial sense to do so. CVS acquired a total of 59 new stores in 1993, including Austin Drug on Long Island, Standard Drug in Richmond, Virginia and 10 Fay's Drug stores in Pennsylvania. FootAction also acquired 10 stores during 1993, while Wilsons acquired the 31 store Georgetown Leather Design chain, all in key markets.

1993 Divisional Review

CVS' net sales rose to $3.948 billion from $3.632 billion, an increase of 8.7%, strengthening its position as the number one drugstore chain in 20 of the 29 major markets in which it competes. CVS completed the renovation of Peoples Drug and had a successful reintroduction celebration to the Washington, D.C. market in the summer. This directly contributed to net sales in both the pharmacy and front store segments of the business being particularly strong during the second half of the year.

CVS opened 105 new stores, bolstered by the acquisitions mentioned above. During 1993, the rollout of point of sale scanning technology throughout the chain was completed. Additionally, a new enhanced pharmacy computer system, RX2000™, was initiated which will enable CVS to increase its prescription market share. With both the assimilation of the Peoples Drug acquisition and the major technological efforts behind us, CVS is well positioned as we move into 1994.

Marshalls' same store sales were down slightly in 1993 as a result of soft apparel sales and price pressures caused by prolonged promotional activity and markdowns stimulated by department stores and other apparel retailers. In periods of intense promotional activity, Marshalls is negatively impacted as its relative value is reduced until market conditions stabilize. Marshalls opened 42 new or relocated stores in 1993 and expects to open 40 more in 1994.

More important than the chain's physical growth, however, is the quality of its new store locations. New stores in downtown Boston and Honolulu are representative of Marshalls' drive to secure sites that will enable it to dominate critical markets and leverage its growth over the next several years.

Meldisco, the leased shoe departments in Kmart stores, reported net sales of $1.212 billion in 1993, an increase of 1.4% versus

1992. Meldisco saw positive results in its higher end categories of merchandise, but suffered from both deflationary pressures and to a lesser degree from the negative impact of weak apparel sales in fashion sensitive categories.

Thom McAn and Kay-Bee were significantly impacted by the 1992 strategic realignment program. Sales of stores designated to be closed were excluded from the 1993 sales results. Thom McAn also eliminated its men's athletic and children's categories during 1993. The remaining women's and men's categories, however, which have been redefined, experienced positive same store sales growth. Further improvement is expected in 1994 as the chain continues to focus on enhancing its merchandise assortment and presentation.

Kay-Bee, which was impacted by soft video game sales and a lack of any "blockbuster" toy products, produced $919.1 million in net sales in 1993. Although Kay-Bee's results were disappointing, greater availability of closeout merchandise and a focus on repositioning its core toy offerings in 1994 to give a more consistent and distinctive merchandise selection will enable it to capitalize on being the pre-eminent toy store in the malls.

Wilsons generated $479.3 million in net sales down 5.7% from 1992. This national franchise has taken significant steps to update its merchandising assortments, control costs and improve profitability by enhancing its accessory lines. Wilsons' business, which is highly sensitive to fashion trends, experienced the adverse impact of the downward trend in leather outerwear in 1993. This remains a business with a dominant position in the malls, but one that will be subject to significant swings in profitability because of the nature of its product offerings.

Linens 'n Things delivered $333.2 million in net sales during 1993, an increase of 23.0%, with same store sales exceeding 10.0% in its superstore format. This format has been extremely well received by its customers. In addition, the strong rebound in home sales in 1993 created a favorable environment for its product lines. With plans to open 25 to 30 superstores, averaging 35,000 square feet, Linens 'n Things is increasing its physical presence significantly. Operating profits should continue to improve in tandem with the chain's ability to leverage its fixed costs.

FootAction, which sells branded athletic footwear, apparel and accessories in 391 stores in 43 states, contributed $262.3 million in net sales in 1993. We expect this chain to grow significantly as it continues to open traditional athletic footwear stores and its newer 10,000 square foot superstores whose diverse offerings of footwear, apparel and accessories will satisfy the entire family's active lifestyle needs.

Bob's expanded from 11 stores to 16 in 1993 increasing net sales by 33.6% in a difficult apparel retailing environment. By focusing its current physical expansion within a 200 mile radius of its Connecticut base, this growing chain hopes to capitalize on the strong customer franchise it has already established. This geographical concentration will enable the company to improve margins by leveraging its merchandise distribution and sales promotion expenses. Michael A. Friedheim, formerly Executive Vice President of Melville, was named Chairman and Chief

Executive Officer of Bob's in January 1994, reflecting our belief that this high growth division deserves our best talent in its management ranks.

This End Up exceeded its revenue and profit goals in 1993, providing $110.4 million in net sales, an increase of 9.6% over 1992. In addition, same store sales were up 7.9% over 1992. This End Up will continue to build upon its successful business strategy by expanding both its merchandise selection and the size of its stores as it capitalizes on the consumer interest in home related products.

Though the retail environment has been difficult over the last few years, we feel we've made significant progress in positioning Melville to grow and prosper. Because of factors such as over-capacity in retail space, fewer but much stronger competitors and low inflation in the products we sell, it is clear our businesses must differentiate themselves to become more attractive to the customers they hope to serve. All of our businesses have made progress in differentiating their merchandise offerings over the last several years and, although this is a task that is never complete, what has been done will serve us well as we move forward. Lastly, the strategic realignment program has helped to position us more favorably for the years ahead.

Social Responsibility

Just as Melville has reviewed and refined the operations of each of its divisions over the past several years, we have also reexamined our charitable giving efforts. While continuing our tradition of giving back to the communities in which we operate, we also believe the Company has a responsibility to invest in longer term solutions to important social problems.

Melville has decided to address one of the most critical challenges facing both our nation and the future of the Company–improving our educational system. We feel that we can have the greatest impact by supporting a few carefully chosen initiatives, and building on these efforts over time.

We also believe that the direct involvement of Melville associates, when combined with financial support, has tremendous potential to enhance our impact. More and more of our associates are getting involved in Melville's educational initiatives, forming true partnerships with schools and other organizations. We are already seeing evidence of how powerful this combination can be, and are discovering that the learning and sharing goes both ways. According to many associates who find ways to offer their time and talents, they gain as much as they give.

Finally, our initial hope was that Melville's seed investments would begin to leverage other resources–both public and private–over time. We are encouraged to see that this is beginning to happen. Several initiatives that Melville helped to get off the ground are now attracting funding from other sources, allowing them to expand their efforts and have an even greater impact.

Board of Directors

During 1993, it was a pleasure to welcome Ivan G. Seidenberg, President, Chief Operating Officer and Vice Chairman of the Board of NYNEX Corporation, to our Board of Directors.

Effective April 12, 1994, at the Annual Meeting of Shareholders, Frank Melville will retire from the Board of Directors after 29 years of dedicated service. During his tenure, Mr. Melville served unselfishly and with distinction as Chairman or a member of the Executive, Audit, Compensation, Nominating and Finance Committees of the Board. The Corporation was fortunate to have the benefit of his advice and counsel for so long a period.

On behalf of his fellow directors and the officers and associates of the Corporation, we wish him continued good health and happiness in the years to come.

Changes in Management

On November 8, 1993, Harvey Rosenthal was named President and Chief Operating Officer of the Company. In January of 1994, he was also elected to our Board of Directors. Harvey was President and Chief Executive Officer of CVS, our largest division, and brings excellent operational and strategic skills which will broaden the Company's base of senior management.

Thomas M. Ryan became President and Chief Executive Officer of CVS in January of 1994. Formerly Executive Vice President of Operations for CVS, Tom was also elected a Vice President of Melville. He has been with CVS for 18 years in a variety of pharmacy and managerial positions.

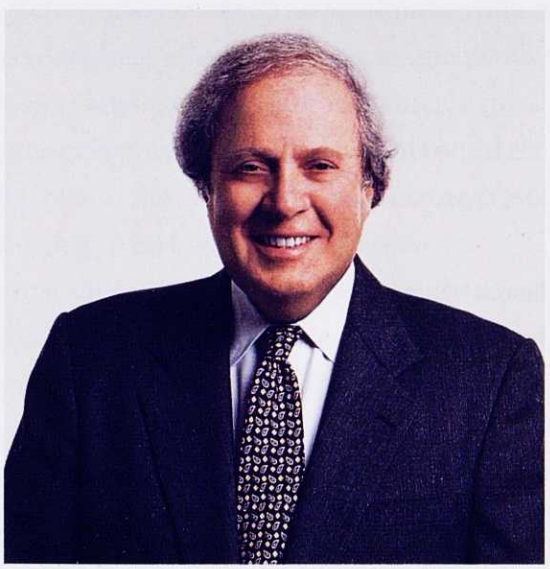
On January 1, 1994, Jerald L. Maurer joined the Company as Senior Vice President of Human Resources.

Final Comments

At Melville Corporation, we are excited about the future. Innovations are underway at every division to help us take advantage of prevailing and future market trends, and we believe that we have a strategic mix of businesses that will help our Company withstand changes in the business cycle more effectively.

Our many strengths represent a powerful foundation for the growth of our divisions, our Company and shareholder value during the months and years ahead. Chief among those strengths is the quality of our people, including more than 111,000 associates, our vendors, our landlords, our shareholders and, of course, our valued customers. At Melville, we never lose sight of the fact that these are the people responsible for our past accomplishments and the successes yet to come. I want to take this opportunity to express my sincere appreciation to all of you for your continued support.

Stanley P. Goldstein
Chairman of the Board and
Chief Executive Officer
February 10, 1994



DEFINING THE FUTURE

OF SPECIALTY RETAILING

CVS

"Our technological investments will drive sales and reduce costs in 1994. We will also enter new markets to stimulate new store growth. Our market dominance enables us to better serve our customers for two sides of our business, managed care and convenience."

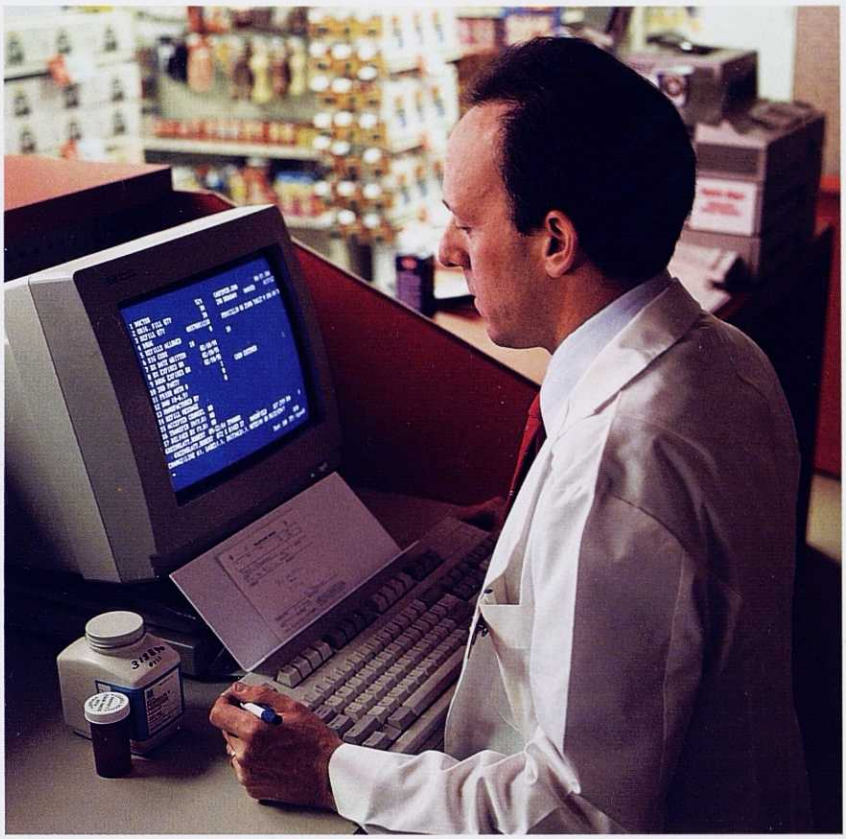
Thomas M. Ryan
President and CEO

It is an understatement to say that the specialty retail business has changed dramatically since the beginning of this decade. Consumers are demanding higher quality, better customer service and greater value. At the same time, competitive pressures and a difficult economic climate have combined to make expense control and enhanced operational efficiency essential to maintaining profitability. To grow in this environment, retailers must anticipate the forces that are redefining their markets, as well as continue to better understand their customers and their needs, not just react to them.

At Melville Corporation, we are constantly examining the way we do business. We are improving the shopping experience by continuing to modify our product offerings, redesigning store environments and increasing service levels. We are also giving consumers more choices by offering a wider assortment of merchandise and we are enhancing customer service through technologies that enable store personnel to spend more time with customers. Behind the scenes, we are investing in systems that give

us improved information to drive sales and replenish inventories. We have increased responsiveness by improving the efficiency of our distribution systems.

Many of these innovations are made possible at the divisional and store levels by the synergies of being part of the Melville organization. Shared systems and technologies help provide sophisticated resources at lower costs, and the Company helps tailor these resources to each individual division. The result is a unique ability to "satisfy customers through specialty retailing" in a way that we believe will position all of Melville's businesses to grow and prosper in the 1990's and beyond.



▲ *The RX2000™ pharmacy system will enable our pharmacists to better serve our customers' growing needs.*

CVS: Providing Convenience, Value and Customer Service in a Changing World

CVS enjoyed solid sales growth in 1993 and strengthened its position as the leading drugstore chain in the Northeast and Middle Atlantic states. CVS ranks first in 20 of the 29 major metropolitan markets where it competes.

◀ *Managed health care initiatives in the pharmacy and more private label items in the front of the store are helping CVS satisfy changing customer needs.*

Its strong pharmacy franchise will be bolstered this year by the installation of RX2000™, a fully integrated pharmacy computer system. RX2000™ will enhance customer service, improve productivity, and offer the array of prescription services that managed care customers seek. A sales force is successfully marketing CVS' prescription benefit management capability to HMOs, insurance companies, local governments and private businesses.

CVS intends to make the front of the store as compelling a destination as the pharmacy. Accordingly, merchandising efforts are

▲ *Our customers tell us that even if they don't visit our 24-hour CVS stores in the middle of the night, they feel good that it is there if they need it.*

particularly focused on private label products, greeting cards, photofinishing, cosmetics, seasonal merchandise, and health related products. The point of sale technology installed in 1993 now provides more detailed sales and inventory management information. CVS will use this information to build sales, improve margins, and reduce markdowns and labor costs.

CVS will also differentiate itself through convenience and customer service. It operates sixty 24-hour stores and hundreds more with extended hours. Its new store openings focus on free-standing convenient locations. It is leveraging technology to tailor merchandise assortments by store and improve service through faster checkout and increasing the time spent with customers. Accessible pharmacists, helpful staff, and community involvement strengthen customer loyalty to CVS.

Increasing competition and declining pharmacy gross margins necessitate ongoing cost reduction efforts which are more extensive than strict expense control. CVS is engaged in an activity-based cost study of all major cross-functional business processes, and expects significant savings and improved efficiencies to result in 1994 and beyond.

CVS is well-positioned to meet the needs of both busy consumers and managed care customers, and to benefit from changes in the delivery of health care services.

Marshalls: A Fresh Look for an Old Friend

In 1993, Marshalls continued upgrading its existing stores by remodeling 49 stores and adding or relocating an additional 42 stores. In 1994, Marshalls will continue this focus with 40 new stores and about 50 remodeled stores.

▲ *Marshalls' new prototype store format reflects our latest thinking on merchandise presentation and display.*

Moreover, in 1993 Marshalls introduced its new prototype design in three locations, blending the high-value environment of a traditional Marshalls store with a new level of merchandise excitement. This new prototype expands on several key merchandise categories while providing improved customer circulation,

◀ *A wider assortment of merchandise and new, contemporary displays will help Marshalls attract more value-conscious consumers.*

Marshalls

"We moved into Hawaii in 1993. We also expanded our presence in the downtown environment with new stores in Boston and Portland, Oregon. Our customers expect to find the kind of value we offer everywhere now; not just the mall or strip center, but where they work."

Warren D. Feldberg
Chairman and CEO

more effective store signing and more accessible customer service areas.

In 1993, Marshalls was affected by difficult apparel sales as well as a highly promotional retail environment. In 1994, Marshalls will emphasize brand name merchandise at values that are lower everyday than department store sale prices as a way of underscoring its traditional off-price positioning.

In 1993, Marshalls made progress toward improving the freshness of its inventory through more frequent deliveries and a more aggressive markdown program. In 1994, Marshalls will refine its focus on broader assortments and customer service, giving consumers more choices and store personnel more time to assist them.

Marshalls will be supported by a new and aggressive advertising strategy to attract more consumers who want brand name merchandise for less. Because Marshalls recognizes that consumer preferences vary from one location to another, the chain has adopted a strategy in which the merchandise in each store is more tailored to the preferences of local consumers. This will help ensure that Marshalls customers will find apparel and accessories in the sizes, styles and prices they want.

Marshalls will continue to develop and refine the technologies that reduce paperwork, improve efficiency and drive sales. These technologies will impact merchandise and financial management systems, distribution processes and the flow of timely information to and from stores.

Meldisco: New Look, Location and Markets

Meldisco, which operates leased shoe departments in Kmart stores, continues to benefit from Kmart's renewal program. Customer traffic has improved markedly in stores that have been relocated or refurbished

▼ *Meldisco's new merchandise replenishment program will help ensure that the sizes and styles consumers want are in-stock when they visit our shoe department.*

▲ *The redesigned and renamed Kmart shoe department, "Shoemart," features attention-getting signs, new colors, and lifestyle photography.*

and Meldisco's sales are expected to grow as more store relocations take place.

Perhaps most important, the shoe department enjoys a more central location in the updated Kmart stores. The department is now more visible from the front entrance and is adjacent to other accessories such as jewelry, hosiery, gloves and handbags.

The department has been completely redesigned with attention getting signs, new colors, lifestyle photography, improved displays and seating and a new name–Shoemart.

Meldisco continues to invest in the tech-

▶ *The new "Shoemart" layout also includes improved displays and seating.*

Meldisco

"The new look that we developed, tested and refined in 1993 will be introduced into 1,600 to 1,700 Kmart stores in 1994. We are also undertaking dramatic changes in our logistical network."

J. M. Robinson
President

nology required to support its growth. A new information network with terminals in every store will reduce the amount of time store personnel devote to administration and expand the time available for merchandising and selling without increasing payroll costs. Meldisco's warehouse improvement programs will help enhance and support the chain's use of replenishment systems as well as improve overall merchandise distribution capabilities by enabling them to reduce lead times and more accurately balance the flow of inventory from the manufacturers to the individual stores.

Kay-Bee: Renewed Focus on Value

As one of the nation's leading toy and video retailers, Kay-Bee intends to remain focused on providing a consistent flow of exceptional value offerings to its customers. Kay-Bee also

▼ *Kay-Bee's emphasis is on improving the store by making it more open and easier to shop.*

▲ *Kay-Bee's expanded merchandise offerings include a broader variety of videocassettes and sporting goods.*

Kay-Bee

places a high value on convenience which it provides by being located in almost every major mall in the country. Furthermore, its new store layout has been designed with ease of shopping as an objective.

In the mall, consumers will discover that Kay-Bee is expanding its merchandise selection for 1994. The stores will offer a wider assortment of toys, games, and recreational equipment, including educational toys, videos and sporting goods. Additionally, Kay-Bee is experimenting with a new format for its mall stores which is about 5,000 square feet as compared to the traditional 3,500 square foot Kay-Bee store. This new format will enable Kay-Bee to enhance the display of its expanded assortments. Kay-Bee also plans to continue its growth significantly outside of the mall, as the chain expects to open 20 to 30 new stores in strip centers to complement its traditional mall stores.

The four wall warehouse distribution system that Kay-Bee introduced in late 1993 is expected to provide significant cost savings in 1994, as will the company's new distribution center in Phoenix, Arizona. The new system's paperless delivery system is more productive than other methods, moving goods from the manufacturer to the customers more quickly and efficiently.

"We will place more emphasis on special value merchandise in 1994 and we are also exploring new ways to market this value message to our customers."

Jerald S. Politzer
Acting President

Wilsons: The Leather Experts

After disappointing 1993 results amid a lackluster fashion environment, Wilsons plans to reaffirm its position as "The Leather Experts." Rather than wait for new leather trends to emerge, the chain is taking a more proactive approach to creating fashions and styles that appeal to value minded and fashion conscious consumers.

▼ *Consistent with its positioning as "The Leather Experts," Wilsons is intensifying its efforts to proactively create new leather styles and fashions.*

A new store design will enhance this change in merchandising focus. Introduced successfully in the Mall of America and other locations in 1993, the new Wilsons store is larger and more contemporary than the previous format and will significantly improve the presentation of its merchandise. Dual entrances invite shoppers into a friendly open store environment. Inside one entrance is a full array of leather jackets and apparel. The other entrance leads to a "store within a store"–an expanded accessories department containing a broad selection of handbags, backpacks, wallets, business portfolios and other leather merchandise.

▲ *A broad selection of leather accessories is displayed prominently in all Wilsons, Tannery West, Georgetown Leather and Snyder Outlet stores.*

Wilsons

"We have refocused our merchandise by finding new leathers and creating the best fashions. We are being proactive rather than reactive. We are strengthening our position as the leather experts."

Joel N. Waller
Chairman

This increased emphasis on accessories will be evident in all of the Wilsons stores as well as in the chain's Tannery West stores and in the addition of the successful Georgetown Leather Executive Accessories line.

To better enable Wilsons to react to customers' needs, new systems will emphasize reducing the time it takes to bring a product to market. The chain recently completed installation of a computer network with links to overseas manufacturers, enabling it to reduce by more than 40% the time it takes merchandise to move from a concept design to a finished product. This technology, integrated with its store management system, will help make Wilsons more responsive to its customers' needs and enable them to make production decisions closer to product delivery time thereby reducing risk.

Linens 'n Things

"As we have expanded our store size, we have been able to make the "things" portion of our business more dominant than it was. This trend will continue in 1994 as we continue to grow."

Norman Axelrod
President

▲ *More fabrics and styles in every department help make Linens 'n Things a one-stop source for high-quality and value-priced home furnishings and accessories.*

Linens 'n Things: Expanding and Refining its Format

The Linens 'n Things customer is looking for complete assortments, good customer service and great value. Linens 'n Things delivers all three in their new and expanding superstore format. Twenty-two new superstores in 1993 bring the total number of Linens 'n Things superstores to 46, and 25 to 30 more are planned for 1994 in existing and new markets.

The chain continues to progress in its evolution from a convenience store to a destination home furnishings and accessories superstore. The average superstore size continues to grow as we continue to listen to our customers and increase the breadth and depth of our offerings. In 1994, the average new superstore

is expected to reach 35,000 square feet. Larger stores have enabled the company to intensify its focus on the "things" part of its business, including housewares, art, frames, organizers, and other decorative home furnishings. By continuing to emphasize wide assortments of designer and brand names, Linens 'n Things expects to achieve rapid growth. Additionally, the positive outlook for new home sales and housing starts for the nineties bodes well for this business.

▼ *Larger stores give consumers the selections they want. They also provide coordinated assortments to give their homes an "interior decorator" look.*

FootAction: Active Lifestyle Footwear and Apparel for the Entire Family

Of the 102 new FootAction stores opened in 1993, seven are FootAction superstores. The expanded superstores better satisfy customer needs by creating an environment in which the entire family can shop for a broad selection of footwear and apparel for their active lifestyles all in one place.

In the superstore, the women's department is larger than most competitors' women's stores; the men's department includes 32 feet of wall space dedicated to footwear; the

▲ *The new FootAction superstore gives the entire family a complete assortment of athletic and outdoor apparel and footwear under one roof.*

children's department supports the growing kids' segment; and an outdoor department features casual footwear and apparel for active lifestyles. FootAction's superstores also include special "vendor concept shops" in which key manufacturers such as Nike, Reebok, Fila and Adidas display a complete selection of their apparel and footwear, helping the chain strengthen its relationships with vendors and customers. Thirty additional FootAction superstores are planned to open in 1994.

Even as FootAction refines the superstore concept, it continues to focus on growing the market share of its traditional FootAction mall stores. The company's strategy is to develop a unique identity and enhance its name recognition as it increases its penetration in key markets. Thirty traditional FootAction stores will open in 1994.

The chain's emphasis is on technologies that will increase service levels. This is sup-

ported by a newly automated warehouse that provides the ability to pick, pack and eventually ship to every store, every day. Tests of the system during the busy 1993 back-to-school season confirmed that more frequent deliveries improve sales by reducing out-of-stocks. In addition, a new automatic inventory management system will quickly replenish specific styles and sizes on a store-by-store basis. This new technology will also help control expenses as it automates the inventory check-in process at the store level and increases the time available to service the customer.

▼ *"Vendor Concept Shops" in FootAction superstores give the most popular manufacturers an opportunity to showcase their merchandise in a single location.*

FootAction

"Our customers tell us that they want a broader choice of merchandise in the stores, and they want bigger stores so that they can make more of their purchases under one roof. That's what our new FootAction superstores deliver: a wider selection in a single location."

Ralph T. Parks
President

Thom McAn

"When you look at Thom McAn stores today, you get a totally different feeling. It's not just a traditional family shoe store anymore. It's a specialty store for active lifestyles."

Larry A. McVey
President

Thom McAn: Repositioned for the Future

In 1992, Thom McAn developed a strategic plan to reposition its traditional shoe store business and position itself for growth. As part of its strategic realignment, the chain closed over 200 stores in 1993 and plans to close over 60 more stores in 1994. In addition, Thom McAn eliminated its children's and men's athletic footwear lines, choosing instead to focus on men's and women's dress and casual footwear and accessories.

1994 is the year in which the bulk of the remaining elements of the strategic plan will be completed. The new Thom McAn contains better assortments, deeper inventories, more casual styles and higher quality merchandise at better values. A new logo, updated decor, new signage and colorful lifestyle photographs reinforce the chain's new image as an active lifestyle specialty retailer. Fewer price points help make shopping easier. A new advertising campaign aimed at the younger generation of working men and women in major markets will help generate awareness of the new Thom McAn.

Improved systems and technology are an integral part of the new Thom McAn with an emphasis on enhancing the accuracy and timeliness of

▲ *Thom McAn has tailored its men's and women product assortments to satisfy the changing needs of the middle market.*

◀ *New merchandise assortment and presentation makes Thom McAn a destination store for footwear and accessories.*

▲ *Bob's is continuing to expand into new markets, offering casual clothing and footwear for the entire family.*

sales and inventory information. A new merchandise allocation system and more frequent shipments will help ensure responsiveness to individual stores' inventory replenishment needs with higher service levels which should translate into additional sales.

Bob's: Focusing on the Customer

Bob's success as a retailer can be traced to its strong foundation of teamwork and adherence to simple business principles. Consistently focusing on customers, treating associates fairly, and providing compelling value has solidified Bob's position as a leading retailer in its core Northeastern markets.

Under the 1993 expansion program Bob's store count increased from 11 to 16 stores, and introduced consumers in upstate New York, Long Island, and the Greater Boston area to Bob's. Striving to exceed customers' expectations, Bob's concentration is on providing a unique blend of product, pricing, presentation and customer service. Further growth in 1994 will be supported by the

Bob's

"At Bob's, we give our employees the authority and responsibility to make decisions. We have a high level of respect for our employees, which gives them a high level of respect for our customers. We have been able to transport that culture to our new locations."

Michael A. Friedheim
Chairman and CEO

▲ *Bobs' broad assortment includes name brand athletic footwear and an expansive variety of jeans.*

addition of six stores in the New York and New Jersey areas. A new store presentation in Buffalo, New York will be evaluated for its impact and acceptance by customers.

In 1994, Bob's will focus on the development of its infrastructure while balancing the need to maintain Bob's "small company" culture, yet implement necessary changes to support a large and rapidly growing business. Above all, sharpening the merchandising presentation, while maintaining items to meet everyone's needs will ensure Bob's commitment to its mission of focusing on the customer.

This End Up: Building on Past Success

This End Up's business has changed significantly since 1990, transforming from a single product specialty furniture store to a diverse provider of home furnishings and decorative accessories. This End Up's customers now choose from a greater assortment of furniture product lines as well as an attractive selection of accessories, gifts and home textiles.

To make room for this broader array of merchandise, This End Up unveiled a new prototype store in 1993, more than doubling its floor space and introducing a contemporary new award winning store design. Eighteen new and redesigned This End Up stores opened in 1993, and 40 new and remodeled stores are planned for 1994. In addition, the installation of point of sale equipment in all stores in 1992 provides faster, more accurate sales information, improves delivery reliability and simplifies store operations.

Product innovation and change will continue to fuel This End Up's success. In 1994, test stores will offer new products such as fully upholstered furniture and other new furniture items. Furthermore, a 112,000

▲ *This End Up's transformation from an affordable furniture store (bottom) into a diverse source of home furnishings and accessories (top) is reflected both inside and outside of the store.*

square foot addition to the Sanford, North Carolina manufacturing facility and a new 250,000 square foot factory in Lillington, North Carolina will accommodate more flexibility in supporting the manufacturing needs of a broader selection of merchandise, including the popular Wood's End furniture products.

Melville: Positioned for Future Growth

This report describes just a few of the innovations that will position Melville Corporation and its divisions for a successful future. Other initiatives are underway, and more will be developed over time as part of the ongoing process of change and continual renewal.

Everything we do shares the same goal: to

This End Up

"Product innovation and change has fueled our success for the last few years. We will continue to do the things that helped us grow in 1993, and expand them as we move forward."

Douglas H. McElhinney, III
President

give our customers the service, products, styles and selection they want, and to reestablish Melville's earnings growth in a way that yields more consistent performance and higher returns to our shareholders. By maintaining our focus on all of our businesses, continually challenging the way we do business and anticipating our customers' needs and wants, we believe that higher sale earnings and greater shareholder value will inevitably result.

Number of Stores	1993				1994 (Projected)		
	Beginning	Opened	Closed	Ending	Openings	Closings	Endi
CVS	1,221	105	42	1,284	55	25	1,3
Marshalls	419	33	4	448	40	2	4
Wilsons	583	71	23	631	20	19	6
Bob's	11	5	–	16	6	–	
Chess King (a)	487	–	487	–	–	–	
Accessory Lady (b)	113	2	115	–	–	–	
Meldisco	2,623	257	109	2,771	63	21	2,8
FootAction	298	102	9	391	60	15	4
Thom McAn	731	8	402 (d)	337	4	6	3
Kay-Bee	1,244	26	244 (d)	1,026	40	–	1,0
Linens 'n Things	144	20	21	143	26	23	1
This End Up	236	9	10	235	15	10	2
Prints Plus (c)	103	–	103	–	–	–	
Total	8,213	638	1,569	7,282	329	121	7,4

(a) Reflects the sale as of May 17, 1993.
(b) Reflects the sale as of October 16, 1993.
(c) Reflects the sale as of May 29, 1993.
(d) Reflects stores to be closed in connection with the 1992 strategic realignment program.

FINANCIAL INFORMATION

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Financial Condition

($ in thousands)	1993	1992	1991
Cash and cash equivalents	$ 80,971	$145,138	$ 78,674
Cash flows provided by operating activities	419,654	559,411	369,813
Long-term obligations to total capitalization	14.0%	15.3%	15.5%
Long-term obligations to shareholders' equity	16.2%	18.1%	18.4%
Current ratio	1.8	1.8	1.8

The Company's primary source of liquidity continues to be cash provided by operations. As over 70% of the Company's earnings occur in the fourth quarter, however, it utilizes short-term borrowings, primarily through issuance of commercial paper, to finance its seasonal inventory needs. During 1993, short-term borrowings reached a maximum of $875.0 million as compared to $820.0 million in 1992 and $747.8 million in 1991. The increase in 1993 over 1992 reflects lower earnings and additional capital expenditures related to store openings and remodeling costs as well as system enhancements and new technologies.

As of December 31, 1993, $90.0 million of short-term borrowings were outstanding, with none outstanding at December 31, 1992, and $50.0 million outstanding at December 31, 1991. The daily average of all short-term borrowings was $464.8 million, $542.2 million and $453.4 million for 1993, 1992 and 1991, respectively.

Net interest expense is a function of interest rates and the level of short-term borrowings resulting from the Company's cyclical cash requirements. The Company had net interest expense of $23.8 million, $25.4 million and $29.5 million in 1993, 1992 and 1991, respectively. The decrease in net interest expense in 1993 as compared to 1992 and 1991 is due to declining interest rates as well as a significant decrease in the average level of short-term borrowings from 1992.

Current assets decreased despite an increase in inventories of $52.2 million, primarily due to a lower cash position resulting from lower cash flows from operations. The increase in inventories is due to acquisitions, new store openings, the early receipt of spring merchandise, opportunistic purchases and increased stock levels required for our larger store formats, offset by dispositions. Prepaid expenses decreased as utilization of realignment reserves resulted in decreased levels of deferred taxes.

Current liabilities decreased due to the timing of payments as well as a decrease in costs relative to store closings and the sales of certain divisions.

Capital Expenditures

Capital expenditures were $386.7 million in 1993, $304.3 million in 1992 and $253.1 million in 1991. These expenditures were principally for improvements to new and existing leased store locations, store equipment and information systems. Capital expenditures for 1994 are estimated at $395.0 million and are primarily for new store openings, continuing improvements to stores and investments in new technologies.

Results of Operations

($ in millions, except per share amounts)	1993	1992	1991
Net sales	$10,435.4	$10,432.8	$9,886.2
Same store sales increase	0.1%	3.2%	0.4%
Operating profit before realignment charge	$ 623.3	$ 707.9	$ 669.6
Realignment charge	—	347.0	—
Operating profit	623.3	360.9	669.6
Net earnings before realignment charge and accounting change	331.8	381.4	346.7
Net earnings	$ 331.8	$ 133.4	$ 346.7
Net earnings per share before realignment charge and accounting change	$ 3.00	$ 3.50	$ 3.20
Net earnings per share	3.00	1.13	3.20
Percent of net sales			
Cost of goods sold, buying and warehousing costs	63.9	62.6	62.3
Store operating, selling, general and administrative expenses	28.3	28.7	29.1

Net Sales

Consolidated net sales for the year as well as the fourth quarter ended December 31, 1993 were flat with last year at $10.4 billion and $3.5 billion, respectively. The consolidated operating results, however, exclude those of Chess King, Prints Plus and Accessory Lady after their dispositions on May 17, May 29 and October 16, 1993, respectively, as well as the results of stores designated to be closed by Thom McAn and Kay-Bee under the 1992 strategic realignment program. Adjusting for these factors in the 1993 and 1992 periods, consolidated net sales would have increased 4.8% for the year and 7.1% for the quarter. CVS,

Linens 'n Things and This End Up generated positive sales growth throughout the year while disappointing performances at Marshalls, Kay-Bee, Wilsons and Thom McAn offset these improvements.

The 1992 increase in consolidated net sales was due in part to the 1991 acquisitions of K&K toy stores and FootAction but also reflects the absence of Freddy's, sold in 1991, and CVS stores in California, sold in February, 1992. Adjusting for these factors, net sales increased 7.1%.

Increases in consolidated net sales differ from same store sales increases mainly due to acquisitions and store openings and closings. The lower same store sales increase in 1993 resulted primarily from weakness in the apparel and footwear segments.

Net Earnings

Net earnings for 1993 were negatively impacted by disappointing sales, heavier than expected markdowns in our apparel segment, a decline in gross margin as CVS increases in proportion to the total operations of the Company, and the partial write-off of the notes received in connection with the sales of Freddy's and Chess King. Although the $5.8 million write-off related to Freddy's was recovered in the fourth quarter, the proceeds were set aside to cover anticipated lease settlement costs for the remaining Freddy's leases which are guaranteed by the Melville Realty subsidiary of the Company. Also, $4.0 million was charged to earnings to provide for less than full recovery of the $29.4 million note related to the sale of Chess King as the note was sold to a third party subsequent to year end for less than face value. Earnings were impacted positively by a change in the Company's method of determining retail price indices used in the valuation of its LIFO inventories, which increased net earnings by $10.0 million.

Management formulated a strategic realignment program during the fourth quarter of 1992 which resulted in an after-tax, non-cash charge of $222.0 million ($2.13 per share) and elected to record an after-tax, non-cash charge of $22.6 million ($0.21 per share) retroactive to January 1, 1992, reflecting the cumulative effect of a change in accounting for postretirement benefits.

Net earnings per share of common stock was $3.00 in 1993 compared with $1.13 in 1992 and $3.20 in 1991. Net earnings per share in 1992, excluding the impact of the two special charges, would have been $3.50.

Strategic Realignment

In 1993 we accomplished the major objectives of the 1992 strategic realignment program: three divisions, Chess King, Prints Plus and Accessory Lady, were sold on May 17, May 29 and October 16, 1993, respectively, and the Company closed over 200 Thom McAn stores and about 90 of the Kay-Bee and Linens 'n Things stores designated to be closed or converted under the program. To date, $279.0 million of the pre-tax amount recorded was utilized as follows: the write-off of intangibles and the losses on sale, inclusive of operating losses through the dates of disposition, amounted to $85.0 million; and asset write-downs, operating losses and severance costs for store closings and the acceleration of remodeling programs amounted to $194.0 million.

Costs and Expenses

Cost of goods sold, buying and warehousing costs continue to increase as a percentage of consolidated net sales, reflecting the increased significance of the prescription drugs, health and beauty aids segment to total operations, compounded by continued pressure on third party providers to offer prescriptions at lower prices, as well as lower initial markon in our other segments. Increased markdowns in our apparel and footwear segments in 1993 as compared to 1992 have also contributed to the erosion of gross margin.

Store operating, selling, general and administrative expenses continue to decrease as a percentage of consolidated net sales due to the success of the various cost containment programs currently underway which have enabled the Company to make significant progress in reducing its variable cost structure.

Accounting Changes

The Company adopted Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes," effective January 1, 1993, but elected to delay implementation of SFAS No. 112 "Employers' Accounting for Postemployment Benefits," which is not required until fiscal 1994. The impact of the adoption of SFAS No. 109 was immaterial, as would have been the impact had SFAS No. 112 been adopted.

The Company adopted SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," effective retroactively to January 1, 1992. This statement requires that certain benefits be recorded on the accrual basis, over an employee's service period, rather than on a cash basis. The Company recorded a one-time, after-tax, non-cash charge of $22.6 million to recognize the accumulated obligation for retirees and active employees as of January 1, 1992. The pre-tax annual retiree benefit expense recorded in 1993 was $1.2 million as compared to $5.4 million in 1992. The decrease in 1993 is due to a plan amendment which was effective December, 1992, and resulted in a prior service gain which is being amortized prospectively.

Prescription Drugs, Health and Beauty Aids

($ in millions)	1993	1992	1991
Net sales	$3,948.2	$3,632.1	$3,526.4
Operating profit before realignment charge	195.7	208.6	206.1
Operating profit	195.7	149.2	206.1
Percent change from prior year			
Net sales	8.7	3.0	31.6
Same store sales	5.7	7.7	5.5
Operating profit before realignment charge	(6.2)	1.2	3.8
Operating profit	31.2	(27.6)	3.8
Percent of consolidated total			
Net sales	37.9	34.9	35.7
Operating profit*	30.8	40.3	30.2

*Before corporate expenses.

CVS achieved very favorable increases in both net sales and same store sales in 1993, with particularly strong increases in the fourth quarter reflecting the success of the "Peoples Celebration Event" launched in late May, 1993 to reintroduce these stores to the Washington, D.C. market. Same store sales increased 7.0% in the fourth quarter of 1993 compared to 6.2% in 1992.

Lower margined third party sales increased 24.1% in 1993 and 25.0% in 1992 due to an expansion of the division's managed care business and the success of several key marketing strategies. Various micro-marketing initiatives, and an expansion of private label merchandise lines, also helped to increase front store sales in 1993 and 1992.

Net sales in 1992 exclude the Freddy's division sold in 1991 and the CVS stores in California sold in February, 1992. Adjusting for these dispositions, net sales would have increased 11.5% in 1992.

In 1991, net sales increased 31.6% due to the inclusion of Peoples Drug Stores, acquired in 1990. After adjusting for this acquisition and the disposition of the Freddy's division, net sales would have increased 14.4% in 1991.

Operating profit before the realignment charge decreased in 1993 due to the impact of increasing lower margined prescription sales and incremental costs of rolling out new point of sale and pharmacy systems which will not yield any benefits until 1994.

The 1992 realignment charge related principally to the Peoples Drug Stores remodeling program which was completed in 1993.

Apparel

($ in millions)	1993	1992	1991
Net sales	$3,395.9	$3,486.1	$3,243.2
Operating profit before realignment charge	181.9	230.3	223.0
Operating profit	181.9	125.9	223.0
Percent change from prior year			
Net sales	(2.6)	7.5	6.8
Same store sales	(3.6)	3.1	(0.6)
Operating profit before realignment charge	(21.0)	3.3	(7.1)
Operating profit	44.5	(43.5)	(7.1)
Percent of consolidated total			
Net sales	32.5	33.4	32.8
Operating profit*	28.6	34.0	32.7

*Before corporate expenses.

The 1993 decrease in net sales was due to the sale of Chess King and Accessory Lady, and a shift in consumer spending to more durable and home related goods which resulted in lower net sales at Wilsons and decreased same store sales at Marshalls. Net sales at Marshalls increased 2.3% over 1992, with its gifts and domestics department experiencing a 10.0% increase. Adjusting for the divisions sold, net sales in the segment increased 2.3% in 1993.

In contrast, Marshalls and Wilsons experienced strong sales growth in 1992, which was overshadowed by a very weak performance at Chess King. The protracted economic recession, especially in the Northeast and Southern California, negatively impacted this segment's performance in 1991.

Operating profit before realignment charge decreased in 1993 because of lower gross margin at Marshalls resulting from heightened promotional activity throughout the apparel industry. This was partially offset by the exclusion of the unprofitable Chess King division and strong expense control at both Marshalls and Wilsons, achieved through investments in technology and the reengineering of business processes.

Despite the negative impact of decreased sales and profits for a third successive year at Chess King, operating profit in 1992 before the realignment charge increased from 1991 due to strong sales at Marshalls, coupled with strict expense control at Marshalls and Wilsons.

The realignment charge recorded in 1992 related to the writedown of certain non-performing assets as well as an estimated loss on sale for the Chess King and Accessory Lady divisions.

Footwear

($ in millions)	1993	1992	1991
Net sales	$1,713.1	$1,840.0	$1,747.4
Operating profit before realignment charge	169.0	180.0	161.9
Operating profit	169.0	92.0	161.9
Percent change from prior year			
Net sales	(6.9)	5.3	1.9
Same store sales	(2.5)	(1.8)	(1.4)
Operating profit before realignment charge	(6.1)	11.2	3.8
Operating profit	83.7	(43.2)	3.8
Percent of consolidated total			
Net sales	16.4	17.6	17.7
Operating profit*	26.6	24.9	23.7

*Before corporate expenses.

Net sales increases in 1993 at Meldisco and FootAction were offset by a decline in net sales at Thom McAn, resulting from the exclusion from operations of about 390 stores designated to be closed under the strategic realignment program and the discontinuation of its men's athletic and children's departments. Adjusting for stores excluded at Thom McAn, net sales in the segment would have increased 2.2%.

Net sales in this segment increased 5.3% in 1992 due to the acquisition of FootAction in November, 1991 coupled with a modest sales increase at Meldisco. The continued lack of appeal of the traditional family footwear business represented by Thom McAn, however, as well as the closing of 68 of its stores, negatively impacted the sales results. Adjusting to exclude the impact of FootAction, net sales would have decreased 0.1% in 1992.

Operating profit before the realignment charge decreased from 1992 due to lower same store sales in the segment, particularly at Thom McAn, and a higher level of markdowns, which offset the increase in initial markon at Meldisco as it continues to expand its direct purchasing program in the Far East. Meldisco's overseas buying program and FootAction's success in negotiating more favorable volume discounts, as well as strong expense control, contributed to the increase in operating profit before the realignment charge in 1992.

The realignment charge recorded in 1992 provided for the costs of closing or redeploying about 390 Thom McAn stores. Of the remaining stores designated to be closed, over 60 are planned for 1994.

Toys and Household Furnishings

($ in millions)	1993	1992	1991
Net sales	$1,378.2	$1,474.7	$1,369.2
Operating profit before realignment charge	89.1	98.1	91.4
Operating profit	89.1	2.9	91.4
Percent change from prior year			
Net sales	(6.5)	7.7	8.9
Same store sales	(2.5)	1.6	(5.0)
Operating profit before realignment charge	(9.1)	7.3	(30.1)
Operating profit	2,946.4	(96.8)	(30.1)
Percent of consolidated total			
Net sales	13.2	14.1	13.8
Operating profit*	14.0	0.8	13.4

*Before corporate expenses.

Significant increases in net sales were reported at Linens 'n Things, due to the successful rollout of its superstore format, and at This End Up, both of which benefitted from the shift in spending to home furnishings and related products. Despite these gains, the disposition of Prints Plus and a decrease at Kay-Bee, due to the exclusion from operations of about 240 stores designated to be closed under the strategic realignment program, declining mall traffic and the lack of a "blockbuster" toy, led to an overall sales decline in this segment as compared to last year. Adjusting for the stores excluded and sold, net sales in 1993 increased 2.6% over 1992.

In both 1992 and 1991, net sales increased in all of the businesses in this segment except for a slight decrease at This End Up. Adjusting for the effect of K&K toy stores acquired in 1991, net sales would have increased 5.0% in 1992.

Operating profit declined in 1993 from the 1992 pre-realignment level due to a same store sales decrease at Kay-Bee and a decrease in its initial markon resulting from changing sales mix, offset partially by a pre-tax LIFO adjustment in 1993 of about $14.0 million. Double digit sales increases at This End Up, due to both its Wood's End product line and its larger store format, positively impacted operating profit in 1993, as did aggressive expense control at all divisions in this segment. Favorable economic trends in the housing industry and an expansion of merchandise offerings at Linens 'n Things and This End Up also contributed to an increase in operating profit before realignment in 1992.

The 1992 realignment charge provided primarily for costs of closing or redeploying about 240 stores at Kay-Bee and converting Linens 'n Things stores to its superstore format. Of the remaining Kay-Bee stores designated to be closed, 90 are planned for 1994.

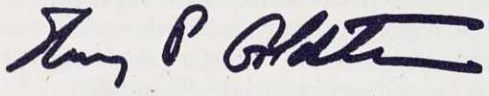
MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The integrity and objectivity of the financial statements and related financial information in this report are the responsibility of the management of the Company. The financial statements have been prepared in conformity with generally accepted accounting principles and include, when necessary, the best estimates and judgments of management.

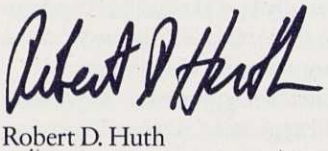
The Company maintains a system of internal accounting controls designed to provide reasonable assurance, at appropriate cost, that assets are safeguarded, transactions are executed in accordance with management's authorization, and the accounting records provide a reliable basis for the preparation of the financial statements. The system of internal accounting controls is continually reviewed by management and improved and modified as necessary in response to changing business conditions and recommendations of the Company's internal auditors and independent auditors.

The Audit Committee of the Board of Directors, consisting solely of outside directors, meets periodically with management, internal auditors and the independent auditors to review matters relating to the Company's financial reporting, the adequacy of internal accounting controls and the scope and results of audit work. The internal auditors and independent auditors have free access to the Audit Committee.

KPMG Peat Marwick, certified public accountants, are engaged to audit the consolidated financial statements of the Company. Their Independent Auditors' Report, which is based on an audit made in accordance with generally accepted auditing standards, expresses an opinion as to the fair presentation of these financial statements.



Stanley P. Goldstein
Chairman of the Board and
Chief Executive Officer



Robert D. Huth
Executive Vice President and
Chief Financial Officer

February 10, 1994

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of
Melville Corporation:

We have audited the accompanying consolidated balance sheets of Melville Corporation and subsidiary companies as of December 31, 1993 and 1992 and the related consolidated statements of earnings, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 1993. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Melville Corporation and subsidiary companies at December 31, 1993 and 1992 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1993 in conformity with generally accepted accounting principles.

As discussed in notes to consolidated financial statements, the Company has adopted Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" effective January 1, 1992 and changed its method of determining retail price indices used in the valuation of LIFO inventories in 1993.

KPMG Peat Marwick
New York, New York
February 10, 1994, except as to the Subsequent Event note, which is as of March 1, 1994

CONSOLIDATED STATEMENTS OF EARNINGS

Melville Corporation and Subsidiary Companies

($ in thousands, except per share data)

Years Ended December 31	1993	1992	1991
Net sales	$10,435,401	$ 10,432,843	$ 9,886,183
Cost of goods sold, buying and warehousing costs	6,664,395	6,529,239	6,163,853
	3,771,006	3,903,604	3,722,330
Store operating, selling, general and administrative expenses	2,956,081	2,994,723	2,875,610
Depreciation and amortization	191,588	201,008	177,110
Realignment charge	–	346,979	–
	3,147,669	3,542,710	3,052,720
Operating profit	623,337	360,894	669,610
Interest expense, net	23,810	25,398	29,512
Earnings before income taxes, minority interests and cumulative effect of change in accounting principle	599,527	335,496	640,098
Provision for income taxes	220,441	125,696	242,949
Earnings before minority interests and cumulative effect of change in accounting principle	379,086	209,800	397,149
Minority interests in net earnings	47,296	53,820	50,468
Earnings before cumulative effect of change in accounting principle	331,790	155,980	346,681
Cumulative effect of change in accounting principle, net	–	22,551	–
Net earnings	$ 331,790	$ 133,429	$ 346,681
Per Share of Common Stock			
Earnings before cumulative effect of change in accounting principle	$ 3.00	$ 1.34	$ 3.20
Cumulative effect of change in accounting principle, net	–	0.21	–
Net earnings per share of common stock	$ 3.00	$ 1.13	$ 3.20

See accompanying notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

Melville Corporation and Subsidiary Companies

As of December 31	1993	1992
Assets		
Current Assets:		
Cash and cash equivalents	$ 80,971	$ 145,138
Accounts receivable, net	243,998	245,204
Inventories	1,858,772	1,806,550
Prepaid expenses	214,649	244,780
Total Current Assets	2,398,390	2,441,672
Property, plant, equipment and leasehold improvements, at cost:		
Land	25,584	20,016
Buildings and improvements	186,025	173,284
Fixtures and equipment	1,051,152	980,604
Leasehold improvements	623,403	640,454
	1,886,164	1,814,358
Less accumulated depreciation and amortization	583,964	606,487
Net property, plant, equipment and leasehold improvements	1,302,200	1,207,871
Leased property under capital leases, net of accumulated amortization	14,677	17,168
Deferred charges and other assets	113,455	117,433
Goodwill, net of accumulated amortization of $81,531 in 1993 and $68,789 in 1992	443,678	429,918
Total Assets	$ 4,272,400	$ 4,214,062

See accompanying notes to consolidated financial statements.

($ in thousands, except per share data)		
	1993	1992
Liabilities		
Current Liabilities:		
Accounts payable	$ 567,131	$ 676,519
Accrued expenses	585,997	609,166
Notes payable	90,000	–
Federal income taxes	74,376	87,073
Other current liabilities	10,593	8,161
Total Current Liabilities	1,328,097	1,380,919
Long-term debt	341,763	349,013
Deferred income taxes	83,333	22,125
Other long-term liabilities	177,173	283,834
Minority interests in subsidiaries	93,858	100,233
Redeemable Preferred Stock		
Cumulative preferred stock, Series B, $4.00 dividend, par value $100, redeemable at par plus accrued dividends; authorized and issued 17,269 shares in 1993 and 1992; 3,971 and 3,896 shares held in treasury in 1993 and 1992, respectively	1,330	1,337
Shareholders' Equity		
Preference stock, $1.00 par value, authorized 50,000,000 shares; Series One ESOP Convertible, liquidation value $53.45; 6,498,514 issued and outstanding in 1993 and 6,596,501 in 1992	347,346	352,583
Guaranteed ESOP Obligation	(328,570)	(335,877)
Common stock, par value $1.00, authorized 300,000,000 shares, issued 111,278,470 and 111,150,265, outstanding 105,346,356 and 104,733,054, net of treasury shares, in 1993 and 1992, respectively	111,278	111,150
Capital surplus	42,123	53,302
Retained earnings	2,364,322	2,208,875
Common stock in treasury, at cost; 5,932,114 and 6,417,211 shares in 1993 and 1992, respectively	(289,653)	(313,432)
Total Shareholders' Equity	2,246,846	2,076,601
Total Liabilities and Shareholders' Equity	$ 4,272,400	$ 4,214,062

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Melville Corporation and Subsidiary Companies

($ in thousands, except per share data)

Years ended December 31, 1993, 1992 and 1991	Preference Stock	Guaranteed ESOP Obligation	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock
Balance as of December 31, 1990	$356,928	$(347,200)	$110,319	$29,245	$2,063,391	$(360,750)
Net earnings					346,681	
Reissuance of common stock held in treasury for business acquired (885,719 shares)				(5,664)		43,418
Purchase of Series B preferred shares for treasury (3,028 shares)				45		
Conversion of Series One ESOP Preference Stock through the reissuance of common stock held in treasury (30,928 shares)	(1,653)			137		1,516
Dividends:						
Series One ESOP Convertible Preference Stock ($3.90 per share,) net					(15,778)	
Series B preferred ($4.00 per share)					(58)	
Common ($1.44 per share)					(148,536)	
Exercise of stock options and restricted shares issued under stock plans			356	12,783		
Conversion of Subordinated Debentures			3	17		
Reduction of Guaranteed ESOP Obligation		5,037				
Balance as of December 31, 1991	355,275	(342,163)	110,678	36,563	2,245,700	(315,816)
Net earnings					133,429	
Purchase of Series B preferred shares for treasury (237 shares)				7		
Conversion of Series One ESOP Preference Stock through the reissuance of common stock held in treasury (50,358 shares)	(2,692)			223		2,469
Dividends:						
Series One ESOP Convertible Preference Stock ($3.90 per share,) net					(15,670)	
Series B preferred ($4.00 per share)					(54)	
Common ($1.48 per share)					(154,530)	
Exercise of stock options and restricted shares issued under stock plans			469	16,491		(85)
Conversion of Subordinated Debentures			3	18		
Reduction of Guaranteed ESOP Obligation		6,286				
Balance as of December 31, 1992	352,583	(335,877)	111,150	53,302	2,208,875	(313,432)
Net earnings					331,790	
Reissuance of common stock held in treasury for business acquired (387,110 shares)				(16,459)	149	18,976
Purchase of Series B preferred shares for treasury (75 shares)				3		
Conversion of Series One ESOP Preference Stock through the reissuance of common stock held in treasury (97,987 shares)	(5,237)			434		4,803
Dividends:						
Series One ESOP Convertible Preference Stock ($3.90 per share,) net					(16,753)	
Series B preferred ($4.00 per share)					(53)	
Common ($1.52 per share)					(159,686)	
Exercise of stock options and restricted shares issued under stock plans			128	4,843		
Reduction of Guaranteed ESOP Obligation		7,307				
Balance as of December 31, 1993	$347,346	$(328,570)	$111,278	$42,123	$2,364,322	$(289,653)

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Melville Corporation and Subsidiary Companies

($ in thousands)

Years ended December 31	1993	1992	1991
Cash Flows From Operating Activities:			
Net earnings	$331,790	$133,429	$346,681
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Realignment charge	–	346,979	–
Cumulative effect of change in accounting principle	–	37,587	–
Depreciation and amortization	191,588	201,008	177,110
Minority interests in net earnings	47,296	53,820	50,468
Increase (decrease) in deferred income taxes and other noncash items	15,595	(93,417)	(10,130)
Change in assets and liabilities, excluding acquisitions and dispositions:			
Decrease (increase) in accounts receivable, net	33,484	(31,728)	(45,371)
Increase in inventories	(86,344)	(25,184)	(216,380)
Increase in prepaid expenses, deferred charges and other assets	(16,854)	(27,163)	(15,198)
(Decrease) increase in accounts payable and accrued expenses	(120,182)	(7,371)	76,434
Increase (decrease) in Federal income taxes payable and other liabilities	23,281	(28,549)	6,199
Net Cash Provided by Operating Activities	419,654	559,411	369,813
Cash Flows From Investing Activities:			
Additions to property, plant, equipment and leasehold improvements	(386,724)	(304,345)	(253,072)
Proceeds from the sale or disposal of property, plant, equipment and leasehold improvements, leased property under capital leases, and operations sold	97,940	81,655	58,081
Acquisitions, net of cash acquired	(41,534)	(25,687)	(42,206)
Net Cash Used in Investing Activities	(330,318)	(248,377)	(237,197)
Cash Flows From Financing Activities:			
Dividends paid	(229,409)	(239,467)	(225,256)
Additions to (reductions of) notes payable	90,000	(50,000)	50,000
(Decrease) increase in book overdrafts	(6,701)	39,050	20,902
Proceeds from the issuance of common stock	5,799	15,537	10,720
Reductions of long-term debt and obligations under capital leases	(13,190)	(9,641)	(22,384)
Other	(2)	(49)	983
Net Cash Used in Financing Activities	(153,503)	(244,570)	(165,035)
Net (decrease) increase in cash and cash equivalents	(64,167)	66,464	(32,419)
Cash and cash equivalents at beginning of year	145,138	78,674	111,093
Cash and Cash Equivalents at End of Year	$ 80,971	$145,138	$ 78,674

See accompanying notes to consolidated financial statements.

Summary of Significant Accounting Policies

Principles of Consolidation: The consolidated financial statements include the accounts of all subsidiary companies including foreign subsidiaries whose results of operations are insignificant. The minority interests represent the 49% participation of Kmart Corporation in the ownership of all retail subsidiaries formed or to be formed from July, 1967 through 1994 for the purpose of operating leased shoe departments in Kmart stores. All intercompany balances and transactions have been eliminated.

Cash and Cash Equivalents: Cash equivalents consist of highly liquid instruments with maturities of three months or less and are stated at cost which approximates market. The Company's cash management program utilizes zero balance accounts. Accordingly, all book overdraft balances have been reclassified to current liabilities.

Inventories: Inventories are stated at the lower of cost or market. Inventories of the retail operations are determined primarily by the retail method with 17.2% valued on a last-in, first-out (LIFO) basis. Inventories of the manufacturing operations are determined primarily on a first-in, first-out (FIFO) basis.

Fixed Assets: Depreciation and amortization of property, plant, equipment and leasehold improvements have been provided in the consolidated financial statements on a straight-line basis, generally over the estimated useful lives of the assets or, when applicable, the life of the lease, whichever is shorter. Amortization of leased property under capital leases is computed on a straight-line basis over the life of the lease.

Deferred Charges: Deferred charges, principally beneficial leasehold costs, are amortized on a straight-line basis generally over the remaining life of the leasehold acquired.

Goodwill: The excess of acquisition cost over the fair value of net assets acquired is amortized on a straight-line basis over periods not to exceed forty years. Impairment is assessed based on profitability of the related business relative to planned levels and changes in useful life if disposition of a business is expected.

Maintenance and Repairs: Maintenance and repairs are charged directly to expense as incurred. Major renewals or replacements are capitalized after making necessary adjustments in the asset and accumulated depreciation accounts for the items renewed or replaced.

Store Opening and Closing Costs: New store opening costs are charged to expense as incurred. In the event a store is closed before its lease has expired, the total lease obligation, less sublease rental income, is provided for in the year of closing.

Federal Income Taxes: The Company and its wholly-owned subsidiaries file a consolidated Federal income tax return. The tax benefit for dividends on unallocated shares of Series One Convertible ESOP Preference Stock (the "ESOP Preference Stock") is recorded as a credit to retained earnings.

Accounting Changes: Effective January 1, 1993, the Company adopted Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS No. 109"), the cumulative effect of which was not material to the consolidated financial statements and is therefore not presented separately. Under the asset and liability method of SFAS No. 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to the differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the year in which those temporary differences are expected to be recovered or settled. Under SFAS No. 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date; this effect was immaterial in 1993.

In 1993, the Company changed its method of determining retail price indices used in the valuation of LIFO inventories.

Effective January 1, 1992, the Company adopted Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" ("SFAS No. 106").

Postretirement Benefits: The annual cost of postretirement benefits is funded as they arise and the cost is recognized over an employee's term of service with the Company.

Earnings Per Share: Primary earnings per share is computed by dividing net earnings, after deducting net preferred dividends on redeemable preferred stock and the ESOP Preference Stock, by the weighted average number of common shares outstanding during the year. The tax benefit of dividends on the ESOP Preference Stock included in the calculation was $10.1 million in 1993 and 1992, and $10.2 million in 1991.

Fully diluted earnings per share is computed based upon the assumed conversion of the ESOP Preference Stock into common stock. Net earnings are reduced by the difference between the current dividend on the ESOP Preference Stock and the common stock, adjusted for certain non-discretionary expenses based on net earnings. Fully diluted earnings per share is not presented for 1992 since the effect is anti-dilutive.

Reclassifications: Certain reclassifications have been made to the consolidated financial statements of prior years to conform to the 1993 presentation.

Acquisitions and Dispositions

During 1993, the Company acquired the assets of 50 prescription drugs, health and beauty aids stores, 31 leather apparel stores and 10 stores selling branded athletic footwear and apparel, for an aggregate of $38.8 million in cash. These acquisitions have been accounted for using the purchase method and resulted in goodwill of $26.1 million. Results of operations are included in

the consolidated financial statements from their respective dates of acquisition.

The Company also acquired all outstanding stock of a chain of nine prescription drugs, health and beauty aids stores in exchange for 387,110 shares of the Company's common stock, which were reissued from treasury. This acquisition was accounted for as a pooling of interests. Previously reported financial statements have not been restated to include results of the acquired company's operations as revenues and earnings prior to acquisition were not material to the consolidated financial results of the Company. The difference between the net book value of the acquired business and the cost of shares reissued has been recorded in capital surplus.

The Company completed the sale of its Chess King, Prints Plus and Accessory Lady divisions effective May 17, May 29 and October 16, 1993, respectively, for aggregate proceeds of $77.1 million, including a note receivable of $2.94 million. The aggregate loss on disposition of $85.0 million, inclusive of goodwill write-offs and losses from operations through the dates of disposition, was provided for as part of the strategic realignment charge recorded in 1992.

Pro forma financial results have not been presented for the effect of these transactions since the operations are not material to the consolidated financial results of the Company.

Strategic Realignment Charge

In 1992, the Company recorded a pre-tax strategic realignment charge of $347.0 million to reflect the anticipated costs associated with a program to close or convert to other formats duplicate or underperforming stores. The charge also included the write-down of fixed assets and other underperforming assets, losses from operations through the expected date of closure or lease settlement, severance and inventory liquidation costs.

Accounts Receivable

Accounts receivable at December 31 consisted of the following:

($ in thousands)	1993	1992
Trade accounts	$216,062	$195,820
Other	60,470	74,515
	276,532	270,335
Less allowance for doubtful accounts	32,534	25,131
	$243,998	$245,204

Inventories

Inventories at December 31 consisted of the following:

($ in thousands)	1993	1992
Finished goods	$1,849,651	$1,790,780
Work-in-process	1,616	1,143
Raw materials and supplies	7,505	14,627
	$1,858,772	$1,806,550

Prior to 1993, the Company used the U.S. Bureau of Labor Statistics indices to measure inflation or deflation in the valuation of its LIFO inventories. In 1993, internally developed indices were used to more accurately measure price fluctuations. The net earnings impact of this change on prior years, individually and cumulatively, is not determinable. The change increased 1993 net earnings by $10.0 million.

Had the FIFO method been used, the carrying value of inventories valued on a LIFO basis would have increased by $22.4 million and $33.7 million at December 31, 1993 and 1992, respectively.

Prepaid Expenses

Prepaid expenses at December 31 consisted of the following:

($ in thousands)	1993	1992
Deferred income taxes	$133,362	$167,834
Other	81,287	76,946
	$214,649	$244,780

Accrued Expenses

Accrued expenses at December 31 consisted of the following:

($ in thousands)	1993	1992
Taxes other than Federal income taxes	$114,627	$136,194
Rents	74,985	85,781
Strategic realignment reserve	3,570	100,905
Other	392,815	286,286
	$585,997	$609,166

Short-Term Borrowing Arrangements

At December 31, 1993, $90.0 million in commercial paper borrowings were outstanding bearing interest at a rate of 3.3%. There were no short-term borrowings outstanding at December 31, 1992.

The Company has available lines of credit with various banks which permit borrowings at prime or other negotiated interest rates. There were no short-term borrowings

outstanding under these lines of credit at December 31, 1993 and 1992. Lines of credit available at December 31, 1993 and 1992, including lines available for letters of credit, were $630.0 million and $600.4 million, respectively. Letters of credit outstanding against these lines were approximately $323.4 million and $288.1 million as of December 31, 1993 and 1992, respectively.

The Company can also obtain short-term financing through the issuance of commercial paper and bank loan participation notes, and is not obligated under any formal or informal compensating balance agreements.

Long-Term Debt

Long-term debt at December 31 consisted of the following:

($ in thousands)	1993	1992
Guaranteed ESOP note, 8.60%, payable in various installments through 2008*	$340,100	$343,500
Other notes and mortgages payable	8,944	10,001
	349,044	353,501
Less current installments	7,281	4,488
	$341,763	$349,013

*See Employee Stock Ownership Plan footnote.

The aggregate long-term debt maturing during each of the next five years is as follows: $7.3 million in 1994, $10.4 million in 1995, $13.8 million in 1996, $17.5 million in 1997 and $21.7 million in 1998.

Interest costs excluding the guaranteed ESOP note were $25.8 million in 1993, $26.7 million in 1992, and $31.2 million in 1991, which included interest costs recognized in connection with the Company's contribution to the ESOP. Interest income and capitalized interest totaled $2.0 million in 1993, $1.3 million in 1992 and $1.7 million in 1991.

Other Long-Term Liabilities

Other long-term liabilities at December 31 consisted of the following:

($ in thousands)	1993	1992
Strategic realignment reserve	$ 6,996	$ 142,242
Other	170,177	141,592
	$177,173	$ 283,834

Leases

The Company and its subsidiaries lease retail stores and warehouse, plant and office facilities over periods generally ranging from 5 to 25 years with options to renew such terms ranging from 5 to 15 years.

Leased property under capital leases at December 31 included:

($ in thousands)	1993	1992
Retail facilities	$ 25,262	$ 33,198
Warehouse, plant and office facilities	22,603	22,508
	47,865	55,706
Less accumulated amortization	33,188	38,538
	$ 14,677	$ 17,168

At December 31, 1993, the future minimum lease payments under capital leases, rental payments required under operating leases, and the future minimum sublease rentals excluding lease obligations for closed stores were as follows:

($ in thousands)	Capital Leases	Operating Leases
1994	$ 6,176	$ 473,748
1995	5,790	444,389
1996	5,458	404,558
1997	4,990	371,487
1998	4,376	365,228
Thereafter	16,594	1,326,055
Total	$ 43,384	$3,385,465
Less amount representing interest	17,228	
Present value of minimum lease payments	$ 26,156	
Total future minimum sublease rentals	$ 1,862	$ 25,865

Net rental expense for all operating leases for the years ended December 31 was as follows:

($ in thousands)	1993	1992	1991
Minimum rentals	$ 496,555	$480,505	$ 447,779
Contingent rentals	192,905	207,106	198,584
	689,460	687,611	646,363
Less sublease rentals	6,286	5,085	3,860
	$ 683,174	$682,526	$ 642,503

Contingent rentals are principally those for leased shoe departments operated under license agreements with Kmart Corporation. These agreements are for terms of 25 years, provide for rental payments based on sales and profits and require certain performance standards. The remaining terms of license agreements in existence at December 31, 1993 ranged from 6 to 25 years.

The balance of contingent rentals relate to other Company operations and are based only on sales.

Contingencies

In connection with dispositions completed in 1991, 1992 and 1993, including Chess King, Melville Realty Company, Inc. ("MRC"), a wholly owned subsidiary of the Company, continues to guarantee rental and other lease-related charges on 720 leases for retail stores and warehouse and office facilities. The present value of these minimum rental payments at December 31, 1993 was approximately $189.0 million. See subsequent event footnote regarding guarantees of Chess King leases.

Redeemable Preferred Stock

The Company is required to provide $279,000 annually, on December 1, as a sinking fund to repurchase shares of Series B preferred stock at prices not to exceed $100 per share. Any balance not so applied within one year is returned to the general funds of the Company. The difference between the cost of shares repurchased and par value is reflected in capital surplus.

Stock Incentive Plans

The Company's 1990 Omnibus Stock Incentive Plan (the "Plan") provides for the granting of options, restricted stock and other stock-based awards for a maximum of 5,000,000 shares of common stock to key employees. The Plan replaced the Company's 1973 and 1987 Stock Option Plans and the 1980 Restricted Stock Plan ("Previous Plans").

Stock options under the Plan are awarded at the fair market value on the date of grant. The right to exercise these options generally commences one year from the date of grant and expires ten years after the grant date.

The 1989 Directors' Stock Option Plan ("Directors' Plan") for nonemployee directors ("eligible directors") provides for the granting of options to purchase a maximum of 150,000 shares of common stock. Any person who becomes an eligible director receives an initial option grant to purchase 2,000 shares of common stock, and, on each January 11 after such initial grant through January 11, 1998, is automatically granted an additional option to purchase 1,000 shares. All options are granted at the fair market value on the date of grant.

The right to exercise options granted under the Directors' Plan generally commences six months from the date of grant and expires ten years after the grant date, provided the director has served continuously during the exercise period.

Information with respect to stock option activity under the Plan, the Previous Plans and the Directors' Plan is as follows:

	Number of Shares	Option Price Range Per Share
Outstanding at December 31, 1990	2,532,148	$12.41 / $54.75
Granted	667,250	39.75 / 49.31
Exercised	321,108	12.41 / 52.00
Cancelled	63,650	28.69 / 52.00
Outstanding at December 31, 1991	2,814,640	$12.41 / $54.75
Granted	717,325	44.63 / 48.44
Exercised	460,090	12.41 / 52.00
Cancelled	44,650	36.00 / 52.00
Outstanding at December 31, 1992	3,027,225	$18.19 / $54.75
Granted	709,650	41.13 / 53.50
Exercised	126,400	18.19 / 52.00
Cancelled	139,875	39.38 / 52.00
Outstanding at December 31, 1993	3,470,600	$18.19 / $54.75
Exercisable at December 31, 1993	2,787,150	$18.19 / $54.75

Restricted stock awards granted under the Plan are subject to certain conditions, and restrictions are lifted generally three years after the grant date.

Restricted stock grants under the Plan totaled 2,225 in 1993, 12,265 in 1992 and 39,060 in 1991. The fair market value as of the grant date was $0.1 million, $0.6 million and $1.8 million for 1993, 1992 and 1991, respectively. Additionally, 420 shares, 2,030 shares and 1,520 shares were cancelled in 1993, 1992 and 1991, respectively.

The Plan also permits the granting of performance shares, representing rights to receive cash and/or common stock of the Company based upon certain performance criteria over a three-year performance period, and performance based restricted shares, representing rights to receive common stock of the Company based upon certain performance criteria over a one-year performance period. Compensation expense related to grants under these provisions is based on current market price of the Company's common stock and the extent to which performance criteria are being met.

During 1993, 54,301 performance based restricted share units were awarded at a fair market value of $2.6 million. During 1992 and 1991, 70,745 and 61,970 performance share units were awarded at a fair market value of $3.4 million and $3.1 million, respectively.

At December 31, 1993 2,181,629 shares were available for grant under the Plan and 82,000 shares of stock were available for grant under the Directors' Plan.

Postretirement Benefits

The Company provides postretirement health benefits at several divisions for retirees who meet certain eligibility requirements.

Effective January 1, 1992, the Company adopted SFAS No. 106, and recorded an accumulated postretirement benefit obligation ("APBO") of $37.6 million for active employees and retirees.

The weighted average discount rate used to determine the APBO was 6.9% and 8.0% at December 31, 1993 and 1992, respectively. The following table reflects the APBO as of December 31:

($ in thousands)	1993	1992
Retirees	$19,400	$16,300
Fully eligible active plan participants	2,800	2,900
Other active plan participants	12,000	10,000
APBO	34,200	29,200
Unrecognized prior service gain	15,200	16,700
Unrecognized net loss	(4,000)	–
Accrued APBO	$45,400	$45,900

Effective December, 1992, the Company amended these plans to terminate certain benefits, resulting in a prior service gain of $16.7 million to be amortized over 13 years. The net periodic cost recorded for the years ended December 31 was as follows:

($ in thousands)	1993	1992
Interest expense	$2,200	$3,300
Service cost	(1,000)*	2,100
	$1,200	$5,400

* Net of prior service gain amortization.

For measurement purposes, a 12.0% increase in the cost of covered health-care benefits was assumed for 1993; the rate was assumed to decline gradually to 6.0% in 2010, and remain at that level thereafter. A 1.0% increase in the health-care cost trend rate would increase the APBO at January 1, 1993 by $4.5 million, and the 1993 annual expense by $0.5 million.

401(k) Profit Sharing Plan

The Company has a qualified 401(k) Profit Sharing Plan available to full-time employees who meet the plan's eligibility requirements. This plan, which is also a defined contribution plan, contains a profit sharing component, with tax-deferred contributions to each employee based on certain performance criteria, and also permits employees to make contributions up to the maximum limits allowed by Internal Revenue Code Section 401(k). Under the 401(k) component, the Company matches a portion of the employee's contribution under a predetermined formula based on the level of contribution and years of vesting service. Company contributions to the plan for both profit sharing and matching of employee contributions were $20.3 million, $17.9 million and $15.1 million in 1993, 1992 and 1991, respectively.

Employee Stock Ownership Plan

The Company sponsors a defined contribution plan for all full-time employees through its ESOP.

The ESOP Trust (the "Trust") borrowed $357.5 million at an interest rate of 8.6% through a 20-year loan guaranteed by the Company and used the proceeds to purchase 6,688,494 shares of ESOP Preference Stock from the Company. The original liquidation value of the ESOP Preference Stock is guaranteed by the Company. Dividends are cumulative at the stated rate or the common stock rate if higher.

Contributions to the ESOP, plus the dividends paid on the ESOP Preference Stock held by the Trust, are used to repay the loan principal and interest. Dividends paid were $29.6 million, $25.8 million and $25.9 million in December 1993, October 1992 and October 1991, respectively. Cash contributions made by the Company were $7.9 million, $7.4 million and $4.1 million, respectively, in the same periods. Interest costs incurred by the Trust were approximately $29.5 million in 1993, $29.8 million in 1992 and $29.9 million in 1991.

Compensation expense of $5.7 million, $5.5 million, and $5.3 million was recognized in 1993, 1992 and 1991, respectively. The difference between the cash contribution and the expense recognized is credited to the Guaranteed ESOP Obligation.

Income Taxes

Effective January 1, 1993, the Company adopted SFAS No. 109. The cumulative effect of this accounting change was not material.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the

amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities as of December 31, were as follows:

($ in thousands)	1993
Deferred tax assets:	
Inventories	$ 30,852
Other assets	21,920
Employee benefits	53,915
Total deferred tax assets	106,687
Deferred tax liabilities:	
Property, plant and equipment	56,658
Net deferred tax assets	$ 50,029

The provision for income taxes at December 31 consisted of the following:

($ in millions)	1993	1992	1991
Federal	$170.2	$ 99.1	$189.4
State	50.2	26.6	53.5
	$220.4	$125.7	$242.9

Reconciliations of the effective tax rates to the U.S. statutory income tax rate are as follows:

Percent of pre-tax income	1993	1992	1991
Effective tax rate	36.8	37.5	38.0
State income taxes, net of Federal tax benefit	(5.4)	(5.2)	(5.5)
51% owned subsidiaries excluded from the consolidated Federal income tax return	2.6	4.4	2.2
Goodwill	(0.8)	(3.9)	(0.7)
Other	1.8	1.2	–
Statutory income tax rate	35.0	34.0	34.0

The provision for income taxes includes a net deferred tax benefit of $103.4 million in 1993, and net deferred tax charges of $97.6 million in 1992 and $1.2 million in 1991. For 1992 and 1991, deferred income taxes relate principally to costs associated with the strategic realignment program, the capitalization of inventory costs, depreciation, employee related benefits, and leased property under capital leases.

Supplemental Cash Flow Information

During the years ended December 31, the Company had the following non-cash financing and investing activities:

($ in thousands)	1993	1992	1991
Fair value of assets acquired	$ 61,144	$ 26,417	$129,306
Fair value of common stock reissued from treasury	–	–	37,754
Cash paid	38,814	25,691	40,480
Liabilities assumed	$ 22,330	$ 726	$ 51,072
Book value of common stock issued in pooling of interests	$ 18,976	$ –	$ –
Notes received for operations sold	29,413	–	19,201

Cash payments for income taxes and interest for the year ended December 31 were as follows:

($ in thousands)	1993	1992	1991
Income taxes	$ 157,240	$236,975	$223,094
Interest (net of amounts capitalized)	25,747	26,628	30,317

Recent Accounting Pronouncements

SFAS No. 112, "Employers' Accounting for Postemployment Benefits" ("SFAS No. 112") which requires the recognition of an obligation for benefits provided to former or inactive employees after employment but before retirement, must be implemented in fiscal 1994. Had the Company adopted SFAS No. 112 in 1993, the impact would have been immaterial to the consolidated financial statements.

Subsequent Event

Included in accounts receivable is a $29.4 million note received in connection with the sale of the Chess King division (the "Note"). Subsequent to year end, the issuer of the Note (the "Purchaser") filed for protection under Chapter 11 of the United States Bankruptcy Code. On March 1, 1994, the Company sold the Note to a third party and realized a loss of approximately $4.0 million, which was recorded in the 1993 consolidated financial statements.

MRC continues to guarantee rental and lease related charges for 423 of the Chess King leases sold, the present value of which is approximately $91.0 million. Pursuant to the terms of sale of the Note, the Company will be indemnified for 52.5% of any costs incurred under these guarantees for the duration of the Purchaser's bankruptcy. As such, the Company's potential liability under the guarantees is uncertain.

Summary of Quarterly Results

(Unaudited; $ in thousands, except per share data)

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Net Sales				
1993	$2,033,011	$2,537,395	$2,355,376	$3,509,619
1992	2,059,351	2,495,073	2,390,584	3,487,835
Gross Profit				
1993	$ 694,749	$ 926,835	$ 853,159	$1,296,263
1992	731,520	948,978	892,344	1,330,762
Earnings (Loss) before Cumulative Effect of Change in Accounting Principle				
1993	$ (21,686)	$ 74,525	$ 41,504	$ 237,447
1992	(13,609)	77,077	55,269	37,243
Net Earnings (Loss)				
1993	$ (21,686)	$ 74,525	$ 41,504	$ 237,447
1992	(36,160)	77,077	55,269	37,243
Earnings (Loss) Per Share before Cumulative Effect of Change in Accounting Principle				
1993 Primary	$ (.24)	$ .67	$ .35	$ 2.22
1993 Fully Diluted *	(.24)	.67	.35	2.12
1992 Primary	(.17)	.70	.49	.32
Net Earnings (Loss) Per Share				
1993 Primary	$ (.24)	$ .67	$ .35	$ 2.22
1993 Fully Diluted *	(.24)	.67	.35	2.12
1992 Primary	(.38)	.70	.49	.32

*Dilutive effect in the fourth quarter due to the assumed conversion of the ESOP Preference Stock and the seasonality of earnings.

Market Information

Melville Corporation's common stock is listed on the New York Stock Exchange. Its trading symbol is MES. Information with respect to quarterly trading ranges (based on low/high stock prices) and dividends paid per share is as follows:

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Year
Market Price Per Share					
1993	$ 46¾-54¼	$43¾-48¼	$ 42¼-47⅛	$ 38⅞-45⅝	$ 38⅞-54¾
1992	42½-52	43½-51¼	44¼-50⅞	47½-55	42½-55
Dividends Paid Per Share					
1993	$ .38	$ .38	$ .38	$ .38	$ 1.52
1992	.37	.37	.37	.37	1.48

Segment Information

The Company is a specialty retailer conducting business through retail stores in four business segments: prescription drugs, health and beauty aids; apparel; footwear; and toys and household furnishings. Information about operations for each of these segments is summarized as follows:

($ in thousands)	1993	1992	1991
Prescription Drugs, Health and Beauty Aids			
Net sales	$ 3,948,197	$ 3,632,066	$ 3,526,401
Operating profit (a)	195,670	149,182	206,106
Identifiable assets at December 31	1,592,964	1,492,471	1,525,541
Depreciation and amortization	56,883	60,233	55,985
Additions to property, plant, equipment and leasehold improvements	104,592	111,802	74,281
Apparel			
Net sales	3,395,926	3,486,065	3,243,159
Operating profit (a)	181,922	125,893	222,968
Identifiable assets at December 31	1,348,385	1,378,091	1,308,957
Depreciation and amortization	75,963	78,566	69,898
Additions to property, plant, equipment and leasehold improvements	154,247	105,037	117,626
Footwear			
Net sales	1,713,093	1,840,022	1,747,415
Operating profit (a)	168,979	91,984	161,876
Identifiable assets at December 31	568,015	572,344	582,858
Depreciation and amortization	20,937	22,293	19,198
Additions to property, plant, equipment and leasehold improvements	45,924	26,973	18,908
Toys and Household Furnishings			
Net sales	1,378,185	1,474,690	1,369,208
Operating profit (a)	89,138	2,926	91,439
Identifiable assets at December 31	655,290	639,764	632,133
Depreciation and amortization	34,797	37,454	30,832
Additions to property, plant, equipment and leasehold improvements	70,948	47,191	41,031
Consolidated			
Net sales	$10,435,401	$10,432,843	$ 9,886,183
Operating profit before corporate expenses (a)	635,709	369,985	682,389
Corporate expenses excluding depreciation and amortization (b)	9,364	6,629	11,582
Corporate depreciation and amortization	3,008	2,462	1,197
Interest expense, net	23,810	25,398	29,512
Earnings before income taxes and minority interests	$ 599,527	$ 335,496	$ 640,098
Identifiable assets at December 31	$ 4,164,654	$ 4,082,670	$ 4,049,489
Corporate assets	107,746	131,392	35,746
Total assets at December 31	$ 4,272,400	$ 4,214,062	$ 4,085,235
Depreciation and amortization	$ 191,588	$ 201,008	$ 177,110
Corporate additions to property, plant, equipment and leasehold improvements	11,013	13,342	1,226
Total additions to property, plant, equipment and leasehold improvements	$ 386,724	$ 304,345	$ 253,072

Operating profit is defined as total revenues less operating expenses. Identifiable assets include those assets directly related to each segment's operations. Capital additions exclude acquisitions.

(a) In 1992, includes the effect of the strategic realignment charge.

(b) Includes general corporate expenses as well as net expenses related to other corporate managed subsidiaries.

FIVE-YEAR FINANCIAL SUMMARY

Melville Corporation and Subsidiary Companies

($ in thousands, except per share dat

Results for the Year	1993 (a)	1992	1991	1990	198
Net Sales	$ 10,435,401	$ 10,432,843	$ 9,886,183	$ 8,686,765	$ 7,553,97
Wages and Compensation	1,338,881	1,315,564	1,257,756	1,053,440	969,30
Taxes	449,563	329,778	439,272	419,038	400,27
Earnings before Income Taxes, Minority Interests and Cumulative Effect of Change in Accounting Principle	599,527	335,496	640,098	687,338	704,30
Earnings before Cumulative Effect of Change in Accounting Principle	331,790	155,980	346,681	385,261	398,07
Net Earnings	331,790	133,429	346,681	385,261	398,07
Dividends Declared	184,934	180,324	174,517	172,210	164,76
Per Share of Common Stock					
Earnings before Cumulative Effect of Change in Accounting Principle	$ 3.00	$ 1.34	$ 3.20	$ 3.59	$ 3.5
Net Earnings	3.00	1.13	3.20	3.59	3.5
Dividends	1.52	1.48	1.44	1.42	1.3
Book Value	21.33	19.83	20.06	17.99	15.7
End of Year Position					
Current Assets	$ 2,398,390	$ 2,441,672	$ 2,369,993	$ 2,113,235	$ 1,874,53
Current Liabilities	1,328,097	1,380,919	1,330,227	1,147,717	808,86
Current Ratio	1.8	1.8	1.8	1.8	2.
Total Assets	$ 4,272,400	$ 4,214,062	$ 4,085,235	$ 3,662,157	$ 3,031,76
Total Long-Term Obligations and Redeemable Preferred Stock	365,936	376,417	385,483	396,430	391,36
Percent of Long-Term Obligations to Total Capitalization	14.0	15.3	15.5	17.6	19.
Property, Plant, Equipment and Leasehold Improvements					
Net of Accumulated Depreciation and Amortization	$ 1,302,200	$ 1,207,871	$ 1,105,287	$ 965,085	$ 766,56
Capital Additions	386,724	304,345	253,072	231,132	202,57
Percent of Net Sales					
Earnings before Income Taxes, Minority Interests and Cumulative Effect of Change in Accounting Principle	5.7	3.2	6.5	7.9	9.
Earnings before Cumulative Effect of Change in Accounting Principle	3.2	1.5	3.5	4.4	5.
Net Earnings	3.2	1.3	3.5	4.4	5.
Return on Beginning Shareholders' Equity	16.0%	6.4%	18.7%	23.8%	23.3%
Number of Stores	7,282	8,213	8,293	7,754	6,93

(a) Excludes stores designated to be closed in connection with the 1992 strategic realignment program.

OPERATIONS

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Chairman and
Chief Executive Officer
Warren D. Feldberg*
President and
Chief Operating Officer
Jerome R. Rossi

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Chairman
Joel N. Waller*
President
David Rogers

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Executive Officer
Michael A. Friedheim*
President
David M. Wilson

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Acting President
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President
Giorgio Malavolti

Melville Realty
Company, Inc.
One Theall Road
Rye, NY 10580
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Daniel B. Katz

OFFICERS

Stanley P. Goldstein*
Chairman of the Board and
Chief Executive Officer

Harvey Rosenthal*
President and Chief
Operating Officer

Robert D. Huth*
Executive Vice President
and Chief Financial Officer

Jerald S. Politzer*
Executive Vice President

Daniel B. Katz*
Senior Vice President

Jerald L.Maurer*
Senior Vice President

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Norman Axelrod
Warren D. Feldberg
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Controller
Arthur V. Richards
Government Affairs and
Corporate Secretary
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Treasurer
Philip C. Galbo

Assistant Secretaries
Kenneth A. DellaRocco
Roger Larence
Edward J. Lucey
Maureen Richards

Assistant Treasurers
Michael L. Mital
Brian M. Szames

*Member of the Company's
Operating Committee

Hyman L. Battle, Jr.[1]
Of Counsel – law firm of Battle Fowler

Allan J. Bloostein[2]
Consultant – Retail and Consumer Goods Marketing

John J. Creedon[1]
Retired, formerly President and Chief Executive Officer of Metropolitan Life Insurance Company, a personal and group multi-line insurance company

Michael A. Friedheim
Vice President of the Corporation

Stanley P. Goldstein
Chairman of the Board and Chief Executive Officer of the Corporation

Robert D. Huth
Executive Vice President and Chief Financial Officer of the Corporation

Michael H. Jordan
Chairman and Chief Executive Officer of Westinghouse Electric Corporation, a diversified global technology based corporation

Terry R. Lautenbach[1]
Retired, formerly Senior Vice President of IBM, a multinational advanced information technology company

Theodore Levitt
Edward W. Carter Professor of Business Administration Emeritus, Harvard University Graduate School of Business Administration

Donald F. McCullough[2]
Chairman Emeritus of Collins & Aikman Corporation, a producer of textiles and wall coverings

Frank Melville[2]
Retired, formerly Chairman of The History Book Club, Inc., book distributors

Jerald S. Politzer
Executive Vice President of the Corporation

Harvey Rosenthal
President and Chief Operating Officer of the Corporation

Ivan G. Seidenberg
President, Chief Operating Officer and Vice Chairman of the Board of NYNEX Corporation, a worldwide communications company

Patricia Carry Stewart[1]
Retired, formerly Vice President of The Edna McConnell Clark Foundation, a charitable foundation

M. Cabell Woodward, Jr.[1][2]
Retired, formerly Vice Chairman, Chief Financial Officer and a Director of ITT Corporation, a diversified multinational corporation

Executive Committee
M. Cabell Woodward, Jr
Chairman
John J. Creedon
Stanley P. Goldstein
Michael H. Jordan

Chairman Emeritus
Francis C. Rooney, Jr.

(1) Member of the Audit Committee of the Board of Directors of the Corporation.

(2) Member of the Compensation Committee of the Board of Directors of the Corporation.

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Chemical Bank
Stock Transfer Department
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Form 10-K
Form 10-K filed with the Securities and Exchange Commission is available without charge upon written request. Requests should be mailed to: Melville Corporate Headquarters, attention of Arthur V. Richards, Vice President and Corporate Secretary.

Annual Meeting
Annual Meeting of Shareholders will be held at Melville Corporate Headquarters, One Theall Road, Rye, NY 10580 at 10:00 A.M., on April 12, 1994.

♻ Printed on recycled paper

Melville Corporation
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